HOUSING MARKET OUTLOOK

Winnipeg CMA

Canada Mortgage and Housing Corporation

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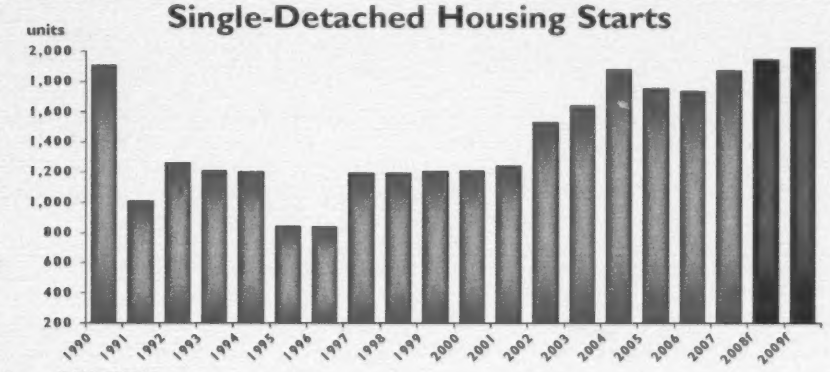
NEW HOME MARKET

Total starts will slip below 2007's high by 6.6 per cent

Total housing starts in the Winnipeg Census Metropolitan Area (CMA) are expected to reach 3,150 units this year, the second highest total since 1988, but 6.6 per cent below the banner year in 2007. The single-detached sector will continue to be a pillar of strength for home builders, while multi-family construction will experience a small pullback following its breakout performance last year when starts were up 44 per cent in the sector. For the first time in several years, lots will be available in every quadrant of the city, providing a boost to single-detached construction over the next two years. Many of the same economic and legislative factors that helped push multi-family starts to a 21-year high in 2007 are still in place and will drive continued strength in that area as well.

Figure 1

Single-Detached Housing Starts



Source: CMHC, CMHC Forecast

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HOME TO CANADIANS

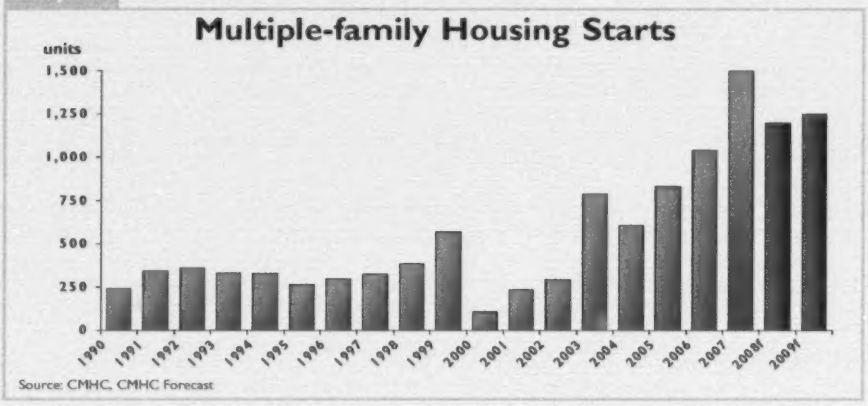
Exceptionally strong demographic trends are continuing to play into the favour of Winnipeg's residential real estate market. The growing population will provide a powerful source of demand for much of 2008 and into 2009. While the economic picture is certainly favourable by national standards, the robustness of the local economy will be put to the test as softening economic conditions in the United States influence Winnipeg's manufacturing and export sectors. The degree to which those industries are able to maintain production and employment levels will determine, to a great extent, the magnitude or emergence of a period of economic weakness.

Single-detached construction poised for another strong year

During the next two years, builders in the capital region will surpass the both the 1,870 single-detached started in 2007 and the 1,882 started in 2004. The 1,950 homes expected to begin construction in 2008 will be the highest total since 1989 when 2,171 homes were started. Next year will see further expansion as single-detached starts are expected to reach 2,025 units, a 20-year high.

Demand for new single-detached units in Winnipeg will be propelled by the continued growth in the number of households and persistently low levels of supply in the competing resale market. The positive economic fundamentals discussed below will continue to be supportive of new home ownership.

Figure 2



Source: CMHC, CMHC Forecast

New home prices across the Winnipeg CMA have risen in lockstep with prices in the resale market over the last five years. The last three years, in particular, have seen substantial jumps in the price of new home in the City. The price of a new home in Winnipeg will reach $325,000 in 2008 and the New House Price Index (NHPI) will increase by nine per cent. Homes located in the Rural Municipalities will reach even higher average prices as they tend to be larger homes on lots much bigger than are available in the city.

The largest contributor to new home price increases over the last three years has been rapidly rising land costs. In large part, those price increases have resulted from extremely limited land supply in the popular Southwest quadrant of the city. The much anticipated Waverly West development saw its first homes begin construction in January of this year. Lots that have services connected are 75 per cent sold, and the remaining lots in phase one will have services connected by July. This phase of construction alone represents 460 lots. Given the strong addition to lot supply, there should be significant moderation in the growth rate of land prices through 2008 and into 2009. Waverly West joins a number other communities under development in the city that, for the first time in several years, give potential buyers the choice of a new home in any of the four quadrants in Winnipeg.

Multi-family starts take a breather; demand still reflects wide variety of consumers

After a dramatic 44 per cent run-up in multi-family construction in 2007, there will be a short period of consolidation in 2008. Despite an 18 per cent decline from 2007 activity, the 1,200 units that are expected to begin construction in 2008 will represent the second highest total in 21 years. Next year will follow with a further 1,250 units.

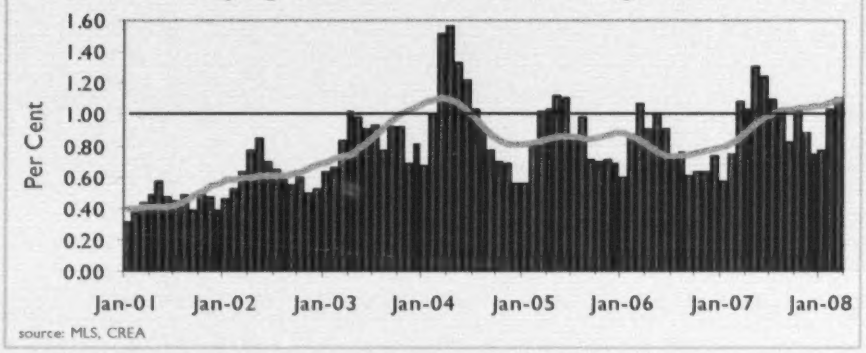
Despite the year-over-year decline in 2008 multi-family construction, the three-year period beginning in 2006

will represent something of a rebirth of the multi-family sector in Winnipeg. Three consecutive years of more than 1,000 multi-family starts has not been witnessed since the 1986 to 1988 period, with demand for the units coming from at least three distinct sources. About twenty per cent of Winnipeg`s population falls into the first time buyer category. Five years of double-digit price growth in the resale market, coupled with the price advantage to the single-detached market and more attractive lifestyle opportunities, mean that these buyers will increasingly look to the condominium market to meet their homeownership needs. Winnipeg, like most of the country, also has a sizeable cohort of its population at, or approaching, retirement, and many are considering downsizing opportunities. To date, the opportunity to move into a condominium unit in relatively close proximity to their current location has been relatively limited. Given the aging of this segment of the population and considerable economic clout, it is likely that condominium construction to meet this need will become a significant segment of the market in the coming years.

The final source of demand for new multi-family units will come from those looking at rental tenure. Rental apartments have had a large and growing share of total multi-family construction in the city since legislation governing rent controls was amended to provide a twenty year exemption to new rental stock. Given Winnipeg`s persistently low vacancy rate, builders have responded to both the favourable market and new regulatory conditions. There should be little change on this front in 2008.

Figure 3

Winnipeg Sales to Active Listings Ratio



source: MLS, CREA

RESALE MARKET

Supply exceptionally tight; will place a cap on sales, but not price growth

Winnipeg`s resale market will continue to experience strong price growth throughout 2008. The average resale price in Winnipeg will reach $200,000 by the end of the year, an increase of just under 15 per cent. That would represent the sixth consecutive year of double-digit price increases and be the strongest of the six. Some additional listings are to be expected in the coming months, as people approach possession of their newly constructed units and owners list their units in advance of a move. The effect will be limited, however, since there are less than 2,300 units under construction intended for ownership. Even if each one was to generate a new listing from a current Winnipeg homeowner, average monthly listings for the year would still be we below the long term average. As a result, price growth will begin to moderate somewhat later in the year. By 2009, we expect price growth to be limited to eight per cent.

While economic and demographic influences have played a significant role in the persistent strength in Winnipeg's resale market, the current situation, in particular, is being driven by a pronounced shortage of listings. Active listings have been at their second-lowest levels on record in each of the first four months of the year, with the exception of January, which bested the previous January low. The previous record lows were set in 2004, however they occurred against a backdrop of substantial inter-provincial migratory outflows. As such, the price growth, while strong, did not match the fifteen per cent expected in 2008.

In order for a more balanced market to develop, either the number of active listings will have to trend up

over time, or the number of buyers will have to diminish. The latter seems unlikely as Manitoba is expecting record levels of in-migration in 2008 and 2009. In addition, many of the international immigrants, who arrived in first few years of this century, will increasingly be looking at moving from rental to homeownership now that they have established roots in the community.

Figure 4

Despite the run-up in the value of their homes, Winnipeggers have thus far been reluctant to put them on the market as they have in other markets in Western Canada. Some of this reluctance comes from seniors who would be happy to move into an adult lifestyle condominium in their area if one were available. In addition, Winnipegers have among the highest propensities to renovate of the citizens of any of Canada's major centres, according to a CMHC study on renovation intentions. This suggests that people are satisfied to modify their existing homes to suit their needs rather than look to the resale market where finding a suitable home may be difficult.

Six years of double digit price growth will also begin to have an impact on demand as some potential buyers move to the sidelines over price concerns. While this will serve to further boost demand in the rental market, it may also affect unit sales volumes in the resale market, particularly if listings rebound and the buyers have made the decision not to pursue homeownership.

Given the scarcity of listings and rapid price growth, advances on the record level of unit sales seen in 2007 will be unlikely. This year will finish with 12,000 residential sales, a decline of 2.6 per cent from 2007's record, but still the second strongest level in history. Provided listings rebound to long term average levels, sales will rebound somewhat in 2009 to 12,250 units.

RENTAL MARKET

Influx of new families maintain low vacancy rates, new rental construction strong

The Winnipeg rental market has been characterized by vacancy rates that have been persistently below two per cent for the last five years. This situation is not expected to reverse itself in 2008. The vacancy rate will fall to 1.3 per cent this year before rising slightly to 1.5 per cent in 2009. Both supply and demand factors will work to keep the vacancy rate near record lows this year and next.

The supply of rental units available to Winnipegers has been on a steady decline for all but one of the last 13 years. Through the mid-nineties, hundreds of units were lost each year to condominium conversions. While this had largely ceased by the turn of the century, very few rental units were started on an annual basis and the rental universe continued to decline. In 2002, the above mentioned change to the legislation governing rent controls prompted something of a renaissance in rental construction. In 2007, there were 792 rental units that were started, more than half of all multi-family starts in the city. That number has moved upwards every year since the legislation was changed. In 2008, another sizeable share of multi-family construction should be devoted to rental tenure.

Despite the vastly improved situation for rental construction, it remains unclear whether it will be sufficient to reverse the decline in the rental market universe, and is unlikely to materially affect the vacancy rate for several years. Newcomers to Canada tend to have a higher pro-

pensity to rent during their first few years in the country and the vast majority of the 6,000 new Winnipegers will come from international sources. That represents some 2,500 families given current family sizes of 2.4 people. Those families, in addition to those created through natural growth, may render the 792 new rental units insufficient to move vacancy rates back to the long term average.

As a result of both the supply and demand constraints, average rent for a two-bedroom apartment in the Winnipeg CMA will rise to $780 in 2008 and $810 by the end of 2009. While the provincially mandated increases are limited to two per cent in 2008, average rent increases will exceed that number for several reasons. Typically, the units that are removed from the rental pool are typically those with the lowest rents, while those that are added are the most recently constructed or renovated and tend to command higher rents. This leads to an upward bias in average rent over time, even if the number of units in the universe remains constant. Additionally, there are several exceptions to the guidelines which allow for greater than mandated rent increase under certain circumstances.

ECONOMIC OVERVIEW

The turnaround in net migration to Winnipeg over the last year has been a dominant factor behind the continued strength of the residential real estate market. Net migration to the city will approach 6,000 people in 2008. That represents about 2,500 new households that will require accommodations of some type and is the highest level on record. The vast majority of those people will be international immigrants coming to the city under Manitoba's Provincial nominee program. Successful candidates typically have needed skills, business knowledge, capital, or some combination of the three. Given that they are usually able to make an immediate contribution to the local economy upon arrival, the program has been a successful contributor to the economic and employment expansion over the last five years.

Economic activity in Winnipeg will remain strong in 2008, although tempered by concerns south of the border. The labour force participation rate is above 70 per cent, versus 68 per cent for Canada as a whole, while the unemployment rate sits nearly two percentage points below the rest of the country at 4.1 per cent. Persistent labour shortages, in the construction sector particularly, will be a limiting factor on Winnipeg's employment expansion, rather than an insufficient number of job opportunities. The tight labour market conditions are not confined to the construction sector, as finding skilled employees is currently a challenge for business leaders throughout the city.

As mentioned, the most pressing threat to the continued strength to the diversified local economy is the looming downturn in the United States. To date, manufacturers and exports in Southern Manitoba have done far better than their counterparts in Ontario and Quebec continuing to expand manufacturing shipments in the face of the high Canadian dollar. Their ability to continue to do so will determine, to a great extent, the resilience of the Manitoba economy. The recently tabled provincial budget contains a few tax breaks aimed at the manufacturing sector specifically to help them remain competitive should the general economic situation of our trading partners deteriorate further.

MORTGAGE RATE OUTLOOK

Mortgage rates will remain relatively flat

Posted mortgage rates eased by about 50 basis points in the first four months of this year, although rates in late April were 30 to 35 basis points higher than they were 12 months prior. Mortgage rates are expected to trend marginally lower throughout 2008, but will be within 25-50 basis points of their current levels. For 2009, posted mortgage rates will begin to drift up slightly as the year progresses. For 2008 and 2009, the one-year posted mortgage rate is forecast to be in the 6.50-7.50 per cent range, while three and five-year posted mortgage rates are forecast to be in the 6.75-7.50 per cent range.

Forecast Summary Winnipeg CMA Spring 2008							
	2005	2006	2007	2008f	% chg	2009f	% chg
Resale Market							
MLS® Sales	11,415	11,594	12,319	12,000	-2.6	12,250	2.1
MLS® New Listings	14,002	14,786	14,490	15,250	5.2	16,000	4.9
MLS® Average Price ($)	137,062	154,607	174,202	200,000	14.8	216,000	8.0
New Home Market							
Starts:							
Single-Detached	1,756	1,737	1,870	1,950	4.3	2,025	3.8
Multiples	830	1,040	1,501	1,200	-20.1	1,250	4.2
Starts - Total	2,586	2,777	3,371	3,150	-6.6	3,275	4.0
Average Price ($):							
Single-Detached	252,252	268,104	306,080	325,000	6.2	347,500	6.9
New Housing Price Index (% chg.)	8.5	9.4	11.8	7.5	-	7.0	-
Rental Market							
October Vacancy Rate (%)	1.7	1.3	1.5	1.3	-	1.5	-
Two-bedroom Average Rent (October) ($)	683	709	740	780	-	810	-
Economic Overview							
Mortgage Rate (1 year) (%)	5.80	6.30	7.35	6.95	-	6.83	-
Mortgage Rate (5 year) (%)	6.30	6.45	7.54	7.01	-	6.97	-
Annual Employment Level	374,700	382,200	390,500	394,500	1.1	394,500	0.0
Employment Growth (%)	-0.4	2.0	2.2	1.9	-	1.8	-
Unemployment rate (%)	4.8	4.6	4.7	4.3	-	4.6	-
Net Migration [1]	1,376	3,557	4,875	6,000	68.7	6,500	8.3

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

(1) 2007 migration data is forecasted

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